

AGENDA: January 21, 2003

3.1

CATEGORY: New Business

DEPT.: City Manager

TITLE: Resolution in Support of Restoring the
Vehicle License Fee (VLF)

RECOMMENDATION

Adopt A RESOLUTION URGING THE CALIFORNIA LEGISLATURE TO NOT SHIFT LOCAL VEHICLE LICENSE FEE (VLF) REVENUES AND TO REINSTATE THE VLF TO THE LEVEL NECESSARY TO RELIEVE THE STATE OF THEIR OBLIGATION TO "BACKFILL" THE LOST REVENUE TO THE CITIES AND COUNTIES, to be read in title only, further reading waived.

FISCAL IMPACT

There is no fiscal impact to approving the recommendation. There is significant impact to the Vehicle License Fee (VLF) revenues received by the City depending on the resolution of this matter by the Legislature.

BACKGROUND

Since 1935, cities and counties have received the VLF in lieu of locally collected property tax on vehicles. When the Vehicle License Fee Act was enacted in 1935, the property tax on vehicles was 1.75 percent based on the value of the vehicle, and in 1948, the rate was raised to 2.00 percent of the value of the vehicle. In 1986, the California voters voted by a 81.8 percent margin to pledge the proceeds of the VLF to fund local government services. In 1998, the Legislature reduced the VLF payments of vehicle owners; this amount (known as the "offset") grew in future years to a 67.5 percent offset against the amount owed. The Legislature committed to "backfilling" the lost revenue to the cities and counties. Additionally, the Legislature provided that if the State could no longer afford to fund the VLF reduction, the VLF "offsets" (the reduction in VLF payment on vehicles) would be reduced.

ANALYSIS

The "Governor's midyear proposal" calls for the immediate stopping of the VLF backfill to local governments. Additionally, the Governor's FY 2003-04 proposed budget calls for the complete elimination of the backfill funding. The impact to the City of Mountain View is \$1,347,587 for the current fiscal year and \$2,856,460 for next fiscal year (which represents 3.7 percent of the adopted FY 2002-03 General Fund revenues and 4.1 percent of the current

FY 2003-04 General Fund revenue projection, respectively). The loss of these revenues would significantly compound the significant revenue decline that the City is already experiencing. This revenue decline would impact the City's service delivery capacity.

The League of California Cities (LCC) is taking an active position in urging the Legislature to implement the provisions of current law pertaining to VLF offset and to increase the VLF in an amount necessary to reduce the State's VLF backfill to the cities and counties.

City staff is recommending that the Council support the efforts of the LCC in urging the Legislature to reduce the offset to the degree necessary to cover the backfill to the cities and counties. Staff is recommending the adoption of a resolution urging the Legislature to not eliminate the backfill of VLF revenues and to implement the provisions of the current law providing for the elimination of the VLF offset. Staff is making the recommendation because the 1998 legislation creating the offset provided for restoration of this revenue source when the State was in a fiscal/economic crisis and due to the impact the loss of this revenue will have on the already significant decline in City revenues.

It is anticipated that the Legislature will consider the matter relative to the VLF beginning the week of January 20, 2003. On January 16, 2003, the Santa Clara County Cities Association Board of Directors adopted a resolution urging the Legislature to reject the Governor's proposal to shift VLF revenues and urged the restoration of the VLF.

ALTERNATIVES

There are three alternatives to the recommended position: (1) take no position at this time; (2) take a position in support of the Governor's proposal relative to the VLF; or (3) propose restoration of some portion of the "offset" amount and continue a corresponding portion of the backfill to the cities and counties.

PUBLIC NOTICING—Agenda posting.

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NPL/6/CAM
608-01-21-03M^

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Attachment: 1. Resolution

CITY OF MOUNTAIN VIEW
RESOLUTION NO.
SERIES 2003

A RESOLUTION URGING THE CALIFORNIA LEGISLATURE TO NOT SHIFT LOCAL
VEHICLE LICENSE FEE (VLF) REVENUES AND TO REINSTATE THE VLF TO THE
LEVEL NECESSARY TO RELIEVE THE STATE OF THEIR OBLIGATION TO
"BACKFILL" THE LOST REVENUE TO THE CITIES AND COUNTIES

WHEREAS, prior to 1935, cities and counties collected property tax on motor vehicles to fund essential local public health and safety services; and

WHEREAS, in 1935, the Legislature first enacted the Vehicle License Fee (VLF) Act replacing the property tax on vehicles with a 1.7 percent charge against the value of the motor vehicle; and

WHEREAS, in 1948, the rate of the VLF was increased to 2.0 percent of the value of the vehicle; and

WHEREAS, in 1986, the voters voted overwhelmingly to constitutionally dedicate the proceeds of the VLF to fund city and county services; and

WHEREAS, in 1998, a period of strong economic growth, the Legislature approved the use of a portion of the rapidly growing State General Fund to reduce the VLF payment for vehicle owners. This amount, known as the "offset," grew in future years to a 67.5 percent offset against the amount owed. The amount paid to the local governments in lieu of the reduced VLF payment is known as the "VLF backfill"; and

WHEREAS, in 1998, legislation and subsequent enactments contain provisions that when insufficient funds are available to be transferred from the General Fund to fully fund the offsets and backfill amount that the VLF offset shall be reduced and the VLF payments increased; and

WHEREAS, the Governor's proposal is to divert \$4 billion in local VLF backfill payments over the next 17 months; and

WHEREAS, shifting \$4 billion in locally controlled revenues for local services is in addition to nearly \$5 billion each year that is transferred from local government services to fund State obligations;

NOW, THEREFORE, BE IT RESOLVED by the City of Mountain View that if the State General Fund can no longer afford the VLF "backfill," the Legislature and Governor of California are hereby respectfully urged to implement the provisions of current law providing for full restoration of the VLF in times of decreasing General Fund revenues and to distribute the full amount of restored VLF revenue to cities and counties, thereby relieving the State's General Fund billions of dollars necessary to fund the VLF "backfill."

NPL/6/RESO
608-01-21-03R^